The MORTGAGE BANKER

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Was the FHA Rate Cut a Mistake?

This Author Says Yes and Declares That Any Further Interest Reduction Will Seriously Retard Money Supply

By W. A. CLARKE

WITHOUT a plentiful supply of mortgage money available for investment at fair rates of interest, builders of this country would find their field of activity reduced to a very small volume. Only those few people with cash of their own would be able to build.

For a number of years an abundance of money at fair rates of interest has been available for mortgage investments. Until war broke out in Europe there was every indication that this condition would continue. What effect is the war in Europe going to have on the supply of mortgage money?

First, consider the source of funds for mortgage investments. In the past mortgage money has come normally from four different types of investors:

1. Savings and Loan Associations
2. Life Insurance Companies
3. Savings Banks
4. Individuals

Since the advent of FHA, a fifth and very important addition has been made to this list of investors. In addition now there are national and state banks. The addition of these banks to the normal list of mortgage investors has had a material effect on the mortgage market.

Many investors in mortgage loans have felt that the presence of banks in the mortgage field would be of short duration and that they would withdraw as soon as a pickup in business activity increased the demand for bank credit.

MR. CLARKE is president of the W. A. Clarke Mortgage Co. of Philadelphia and a member of MBA's board of governors. He recently spoke at the Construction Conference in Washington, D. C., sponsored by the Chamber of Commerce of the United States. As he explains here, his principal concern at the moment about the supply of mortgage money is the future position of the federal government. Mr. Clarke believes that FHA's cut from 5% to 4½% was a mistake and that a further reduction in mortgage rates would constitute a distinctly unfavorable development.

When war broke out in Europe many mortgage investors felt that this time had come and there was a very definite stiffening in their attitude toward interest rates. An analysis of the situation and the events that have occurred since September first I believe proves that their conclusions were not correct. I also believe that, barring the entrance of this country into the war, there will continue to be ample funds seeking mortgage investments at low rates of interest.

Excess bank reserves as of October 31st were slightly more than $5,500,000,000. The monetary gold holdings of the Treasury exceeded $17,000,000,000. It has been supposed that increased industrial activity would care for these great reserves to a large extent. This, however, has not been the case. The Federal Reserve index of industrial production for September was 110, as compared with 103 in August. October has exceeded September. Industrial production is now the highest since 1936-37. Fourth quarter industrial production will be the highest since 1929.

In the face of all this industrial activity, loans of reporting banks for commercial, industrial, and agricultural purposes for the three months, August, September, and October, increased only $400,000,000, a good portion of which represents term loans rather than commercial borrowing. From these facts it is evident that no appreciable reduction has taken place in the supply of funds needing investment by banks. It seems quite evident that, barring the entrance of this country into the war, this condition will continue to exist.

The events that have occurred since the outbreak of the war I believe prove the case. The outbreak of the war in Europe caused a period of panicky selling by many holders of bonds. The period of selling was, however, of short duration as bondholders began to think of the basic money conditions I have outlined. There has been a sharp recovery in bond prices since the September break.

On October 31st, Moody's reported AAA bond average yield was 3.07 percent and the long term governments average yield 2.49 percent.

(*Readers should note that some of the figures quoted represent prices and yields that do not take into effect the recent recovery in bond prices.—Editor.*)

There is only one concern I have about the future supply of mortgage money, i.e., *the position a Federal Government committed to an easy money policy may take toward further reductions in interest rates.*

The FHA today very largely dictates the going interest rate on mortgage loans. A further reduction by the FHA in the rates of interest on mortgages it insures would drive many investors out of the mortgage market. Rates of interest on mortgage loans at the present time are running about 4½ percent. The New York Mortgage Conference shows that the average rate on all recorded New York City mortgages of $10,000 or more for September was 4.57 percent, as compared with 4.65 percent for September 1938. On August 1, 1939 the FHA reduced the rate on housing loans insured under Section 203 to 4.5 per cent.

Mortgages Aren't Risk Free

An insurance company buying a 4½ percent FHA insured mortgage is required to pay its correspondent who produced the business an annual fee of from ½ of 1 percent to ¾ of 1 percent for servicing the mortgagor. This fee covers the correspondent's cost for making monthly collections from the borrower, looking after the payment of real estate taxes, etc. In addition to the fees paid its correspondent, the insurance company's home office detail required to look after a monthly payment mortgage is costly. This cost has been variously estimated at from ¼ to ½ of 1 percent. The net yield to the insurance company is, therefore, on the average not much in excess of 3.5 percent. When one considers that a mortgage is not quite as free of risk as an AAA bond and certainly does not have the same degree of liquidity, all can agree that about ½ of 1 percent is hardly a sufficient spread in interest return between AAA bonds and mortgage investments.

The same situation exists with savings and loan associations. To get funds for mortgage investments they must compete with savings banks. To properly cover overhead and care for reserves a savings and loan association requires a spread of from 1½ to 2 percent between the rate collected from the borrower and that paid the investors in the association. A savings and loan association cannot attract investors with an interest rate of less than 3.5 per cent. They, therefore, must charge the mortgagor from 5 to 5½ percent. If these rates cannot hold, the supply of savings and loan association funds seeking investment will be reduced.

FHA Cut a Mistake

It is my opinion that the FHA made a mistake when they reduced their rates of interest from 5 percent to 4½ percent on August 1st. This reduction in interest rate reduced the monthly payments of an average borrower (this average is $4300) $1.16 per month. This $1.16 per month reduction in carrying charges to the average borrower I believe did not have any effect on the number of people willing to build or buy a new home. A plentiful supply of money seeking mortgage investments is of greater importance. My conclusions are:

1. *That any further reduction by the FHA in the interest rate on mortgages would be unwise;*
2. *That the European war, assuming that we keep out of it, will have little, if any, effect on the supply of funds available for mortgage investment;*
3. *That ample money will be available for mortgages and that builders may look forward to expanding business.*

60 YEARS OLD IN 1940

Another MBA anniversary is that of the David C. Bell Investment Co. of Minneapolis. Next year it will celebrate its 60th anniversary, having been established in 1880. Paul E. von Kuster is president and Laurence A. Eggleston is vice president and treasurer. C. Elmer Keefe is secretary. Mr. von Kuster was president of the Minneapolis Mortgage Bankers Association in 1935 and was chairman of insurance company correspondents group meeting at the Memphis Convention the following year.

VERY BRIEFLY

Will FHA take all appraisal activities out of the hands of the Underwriting Department and place them in charge of FHA state directors?

There has been a vague rumor to that effect. What would be the result of such a move? How would the approved mortgagees like it—and how would institutional lenders?

The question is being asked here. We do not have the answer.

FHA modernization and repair loans insured by FHA in November reached $24,500,000 — higher than in any month since November, 1938. Said Administrator McDonald:

"It is interesting to note that this year, under the new program which calls for the payment of an insurance premium by the lending institution on each loan insured, the FHA received more modernization loan business than during any month in 1938 when the premium charge was not in effect."

Some "blurbs" from government agencies:

Every tenth urban home mortgage in the United States was refinanced by the Home Owners' Loan Corporation between 1933 and 1936.

The HOLC collects more than $1,000,000 every working day from its borrowers and purchasers of homes.

Charges of $32 a month today will carry the same home loan that a few years ago cost $60.

More than 58,000 home owners—in financial distress a few years ago when the HOLC went to their rescue—today have paid off their loans in full, although they had an average of 11 years to pay off their indebtedness.

The HOLC spends nearly $100,000 every working day on repairing and improving properties it owns.

Residential mortgage recordings by savings and loan associations so far during 1939 exceed those reported by any other type of lender, according to the Federal Home Loan Bank Board.

What MBA Members Think About Interest Rates and Building Costs

Interest Rates Will Be Higher Next Year Seems to Be the View; Building Costs Up and Going Higher in 1940

THE war in Europe is only about four months old but already has gone through several distinct periods as far as this country is concerned.

One of the first effects felt in the United States after the outbreak of hostilities was in the money markets. The long decline in money rates was thought to be at an end.

But today most observers aren't so sure. Investment bankers felt the changed conditions quicker than commercial bankers and commercial bankers felt them much quicker than mortgage bankers. In fact, it is still doubtful just how much change war has meant in the field of mortgage money.

By late September many people were certain that the high grade bond refunding issues, which had constituted the major part of investment banking underwritings for several years, were at an end.

This view, perfectly sound and logical at the time, has been proved wrong. Refunding issues have begun to reappear. Conditions in the money markets have not changed as it seemed they might three months ago.

As to the mortgage field, it is a different story. The headquarters office of the Mortgage Bankers Association of America sent queries to our members asking their opinions on this and many other questions.

Replies came from our members in about 70 cities in 31 states. (Replies from only 64, however, are represented in our tabulation.)

Now what do our members believe—about interest rates, building costs, new construction, deficiency judgments, single-purpose loans and other factors?

This article is a report on the first two. Other reports will follow in early issues.

More than three-fourths of the members say there was no rise in mortgage interest rates this Fall.

Nearly one-half of them, however, do expect a rise in 1940.

THIS is the first report on the survey which we recently conducted among members of the Mortgage Bankers Association of America. Obviously it is impossible to give here all the data collected. However, if any member would like more complete information on any particular city, state or section we will be glad to make a special compilation for his use, provided of course that the replies necessary to make that compilation were sufficient in number to make a representative showing. Future articles will deal with other subjects covered by the study.

In 64 cities in 31 states, 83.7 percent of the replying MBA members say there has been no gain in mortgage rates so far while 14.7 percent report increases since September 1st. Nearly two per cent expressed no opinion. Mortgage rates have gained principally in the South and Middle West and have held steadiest in the Far West and Mountain states. By sections the opinions were:

MBA Members in:	*Say No Gain Yet*	*Reported Increases*	*Had No Opinion*
33 Mid West Cities....	79%	18.4%	2.6%
13 Eastern Cities	95	5.	....
10 Southern Cities	80	20.	....
8 Far West-Mt. Cities	100	....	....

Higher mortgage interest rates are expected in 1940. In these 64 cities, 47.3 percent of the members said higher mortgage rates can be expected next year. Only 6.2 percent expect lower rates, while 46.4 percent declared they were "in doubt now as to the future trend." By sections the opinions were:

MBA Members in:	*Expect Higher Rates in 1940*	*Expect Lower Rates in 1940*	*In Doubt as to Trend*
33 Mid West Cities....	[illegible] 9%	5.2%	40.9%
13 Eastern Cities........	[illegible].	5.	50.
10 Southern Cities......	[illegible].	10.	55.
8 Far West-Mt. Cities	[illegible].8	7.7	61.5

According to President Byron T. Shutz, the study shows that higher rates can most be expected in Middle Western states where members also indicated gains had already taken place. Increased rates are least to be expected in the Far West and Mountain states where no member indicated a gain so far.

"Inasmuch as the survey reflects the opinion of mortgage bankers over a wide area and was made well after the first excitement about rising money rates in September, it seems that there are good reasons to expect higher mortgage rates next year," Mr. Shutz said in a statement released to the press. "Nearly half of the members are in doubt, but only slightly more than 6 percent expect lower rates. This seems to indicate that the long decline in mortgage rates may be at an end. Nearly half of the members definitely anticipate higher rates next year. Somewhat higher rates would be beneficial to all concerned. The abnormally low rates tend to shut off the supply of funds."

Building costs in the United States have already risen appreciably as a result of the war abroad and a further increase next year can be expected, the study also revealed.

It showed that 80.6 percent of the members reporting from these 64 cities say that building costs have risen since September 1st. No change in costs is reported by 17.8 percent of the members while 1.6 percent expressed no opinion.

Gains are most pronounced in Eastern and Southern states followed by the

(*Continued on page 5, column 3*)

A Trust Man Looks at Mortgages

Carefully Made Mortgages Are Good for Trust Fund Investment "But Don't Permit Them to Become Permanent Investments"

By C. E. KARN

THE main road of the simple mortgage is broken and bi-sected with many new ideas—participations, pools, guaranteed mortgages, etc. When the sickness which attacked the mortgage structure is analyzed it becomes apparent that the troubles lie largely in the side-roads—those new ideas so prone to develop in a period of rapid expansion.

The so-called guaranteed mortgage seemed to offer additional security. It tended to induce many to lean too heavily on the guaranty and to undervalue the basic security. The loan which can stand squarely on its own merits needs no guaranty.

Perhaps there may be merit in a guaranty for loss sustained through foreclosure and re-sale of the property rather than a lump payment. This philosophy has been adopted by the government through FHA loans. This is more a form of indemnity against loss than a guaranty.

"Pools" have been subject to abuses in the pyramiding of unsalable portions of individual mortgages. This has been true where participations have been issued against "pools of mortgages" and where the investments in the pool are undivided portions of a mortgage debt with an assignment of an undivided interest in the mortgage itself. Trust men are familiar with such accounting phrases as "Suspense Account," "Miscellaneous," etc. It is too easy to use these kind of accounts as a "dumping" ground. I have somewhat the same fear of pools, even though they provide proper investments for trust funds.

Much criticism has also been leveled against the so-called "split" mortgages. Where this expression means literally *an assignment of an undivided interest in a mortgage* the criticism is deserved. However, there is some merit in the split note issue secured by a mortgage issued in the name of a trustee. This latter method is not uncommon and the notes are not fundamentally dissimilar to bonds. Where used with a special mortgage form, vesting the trustee with wider powers and where more definitely providing the duties of the trustee and the remedies to be used in the event of default, it retains the advantages of the simple mortgage and permits participation of smaller trusts in better mortgage security. For example, a trust holding a \$1000 portion of a \$5000 loan upon a well located dwelling worth \$10,000 in most instances would have a safer investment than by holding a \$1000 loan upon a \$2000 home which probably would be an older or outlying property. Aggressive action by the trustee under a mortgage of this type is as essential as under a bond issue. Where the size of the trust and the funds available for investment permit, the use of entire mortgages naturally is more desirable.

DURING periods like the present with conditions highly competitive, what one class of mortgage lenders thinks is news for other classes. These remarks will be of greatest interest to our bank and trust company members but there is some food for thought for other members as well. Mr. Karn is vice president of The Central Wisconsin Trust Company of Madison and was a speaker at the recent Mid-Continent Trust Conference.

It has been my experience over a period of a quarter of a century that mortgages on owner-occupied dwellings have made an excellent showing. This is particularly true with loans of not over 50 percent of value on new, well-located properties. Careful inspection must be made of the building construction. Loans on poorly built houses should be avoided. Periodical re-inspections should be made both as to the physical condition of the property itself and the trend of the district in which the property is located. Property should be kept in good repair.

The period since 1929 has emphasized many points in connection with mortgage loans which the failure to observe directly caused many of our troubles.

What should be the percentage of loan to value? Here you get on dangerous ground. Some states permit loans in excess of 50 percent of value. When loaning trust funds keep the loans under 50 percent of value and there will be a reasonable margin of safety.

All appraisals should be made by competent appraisers. Laws of various states may differ as to the necessity of outside appraisers. The trustee was selected because the trustor had confidence in the institution. The mere argument that an outside appraisal may be better protection for the trustee in the event of criticism is not in itself entirely sound. The question of appraisals is too broad to fully develop here except to emphasize certain points. Appraisal should be based *upon present values and not the hopes of the future.* Where income is capitalized it should be a fair income and not a speculative one. Leases are also important. The unexpired term of the lease, the responsibility of the tenant, the amortization of the loan which the lease affords, all have a distinct bearing on the loan.

An appraisal must not assume that a loan will be renewed. The valuation should be one which, at the maturity of the loan, after application of retirements, would leave a loan ratio, based of course upon present judgment, not in excess of ratio at the time the loan was made.

One purpose building loans show a bad experience. They can hardly be ruled out completely but the element of hazard which they present should be carefully considered.

The moral obligation of the maker of a mortgage note is a general credit factor and is never applied in the determination of a trust investment. But we must admit that, whatever it was worth, it waned considerably after 1930. The good credit risk who applies for, and is granted, a loan today may sell the property to a poor credit risk next month. In many states it is no longer possible to sue on the note without first exhausting the mortgage security through foreclosure. With the increased reluctance to grant deficiency judgments, the name on the note has lost much of its value. The moratorium statutes enacted by many states, together with the difficulty of securing deficiency judgments, again point to the importance of *looking to the security for ultimate repayment.*

One Lesson Well Learned

One lesson we have learned in the past decade is the importance of regular periodic reductions of the debt. These payments have their disadvantages in trust accounts because of additional bookkeeping and less net income to the trust through more uninvested funds. Yet the lack of regular payments has been one of the principal causes of trouble. Income properties should have sufficient excess income to amortize with reasonable rapidity.

Legal opinions of title are essential and the use of title insurance has been growing in some communities. Many of the life insurance companies are using standardized formal forms for title opinions. They have much to commend them. In some states it is important to check special assessment taxes, federal court judgments, zoning ordinances and compliance with the building codes. I recently heard of a loan on a store building in a satellite business district where it subsequently developed the zoning ordinances restricted the lot to residential building. The necessity of converting the property into dwelling units brought about an ultimate loss to the mortgagee.

I believe that in any given community interest rates cannot remain static or be the same for all classes of loans. Why isn't the 20 percent loan entitled to a lower rate than the 50 percent loan? Isn't most of our buying in other fields priced upon quality?

Where loans are made upon properties where the personal property is essential to income production, such as furnished apartments, the mortgage always should be on the entirety. It should include the appurtenances as well as the realty. If foreclosure results and the equipment not covered by the mortgage is removed, an immediate problem confronts the trustee in the matter of rehabilitation of income.

This same thought can also apply to farm loans. Consider the experience of carrying unpaid interest while the mortgagor made payments upon a chattel mortgage. It seems hardly fair that the land held under the mortgage should be used to pay off the chattel debt when interest is not being paid upon the mortgage. Yet the owner faces the problem of loss of his equipment in a much shorter time than the loss of his land and he naturally takes what seems to him the safest course.

WHATEVER the borrower's moral obligation in mortgage lending was worth in the past, it has waned considerably in importance since 1930, the author believes. "With the increased reluctance to grant deficiency judgments, the name on the (mortgage) note has lost much of its value . . . Looking to the security for ultimate repayment" is again in the ascendancy of importance, he says.

The last few years have brought more than the usual number of court decisions affecting mortgages and trustee's relations to them. Trustees should remember that the courts have always possessed an equity jurisdiction and it is in times of financial stress that the relief swings in favor of the mortgagor and that moratorium statutes are enacted. It would of course be fine if these added burdens, during periods of increased problems, did not materialize and if costs of foreclosure could actually be reduced. But with loans carefully and conservatively made, these problems become purely academic.

Government loaning agencies have had a definite effect upon the mortgage field and will continue to be an important factor for some years to come.

The use of mortgages in trusts often permits of somewhat larger income and, where properly amortized, does not present the market risk involved in long term bonds at low coupon rates. I believe that mortgage loans, carefully made, are dependable investments for trust funds. But let me caution again: *Do not permit them to become permanent investments!*

MBA SURVEY

(*Continued from page 3*)

Middle West and least pronounced in the Far West and Mountain states. By sections, the opinions were:

MBA Members in:	*Say No Rise Yet*	*Say Costs Are Up*	*Expressed No Opinion*
33 Mid West Cities....	15.9%	81.5%	2.6%
13 Eastern Cities........	15.	85.	....
10 Southern Cities......	15.	85.	....
8 Far West-Mt. Cities	38.4	61.6	....

Nearly two-thirds of the reporting members anticipate even higher building costs next year. In these 64 cities, 65.1 percent of the members say costs will be increased, 4.6 percent take the opposite view, and 30.3 percent are doubtful as to the future trend.

The most pronounced opinion for further rises in construction costs was found in the Far West and Mountain states where apparently there has been the smallest rise so far. The least pronounced was noted in the Middle West and South. By sections, the opinions were:

MBA Members in:	*Expect Higher Costs*	*No NOT Expect Higher Costs*	*In Doubt as to Trend*
33 Mid West Cities....	61.8%	3.9%	34.3%
13 Eastern Cities........	70.	5.	25.
10 Southern Cities......	60.	5.	35.
8 Far West-Mt. Cities	84.6	7.7	7.7

"Prospects of higher costs ought not frighten prospective builders, however," said President Shutz in a press statement. "There will probably be no sharp sudden advances but slow increases generally.

"The indications for higher costs, which are too unmistakable to be ignored, ought to act as an incentive for many to begin building now while they still have the advantages of today's prices, particularly the extremely low charges for financing."

OKLAHOMA MBA MEETS

Prof. Harold W. Guest of Baker University in Baldwin, Kansas was the principal guest speaker at the December 8th meeting of the Oklahoma Mortgage Association in Tulsa. His address was "Interpreting the Business News." Raymond McLain, Jr. says that plans are well underway for the group's anual convention in Oklahoma City January 12.

Association ACTIVITIES

★ NEWS OF WHAT'S HAPPENING AMONG MBA MEMBERS AND OUR LOCAL ASSOCIATIONS

JOHN C. THOMPSON ELECTED FIRST HEAD N. J. MBA

John C. Thompson, president of the New Jersey Realty and New Jersey Realty Title Insurance companies, has been elected first president of the newly organized Mortgage Bankers Association of Northern New Jersey. Preliminary plans for this new MBA local were told in the last issue of THE MORTGAGE BANKER.

George B. Underwood, president of the Underwood-Franke Mortgage Company and vice president of the Irvington Trust Company and Cowles Andrus, assistant cashier of the Passaic National Bank and Trust Company were elected vice presidents.

Robert A. Hetherington, assistant treasurer of the New Jersey Mortgage and Title Company was elected secretary-treasurer.

Trustees elected for the ensuing year were Howard Biddulph, vice president of Howard Savings Institution, John F. Mylod, president of Mortgage Corporation of New Jersey, and Milford A. Vieser, vice president of Franklin Mortgage and Title Guaranty Company

Only MBA Members Eligible

The organization has already submitted its application for membership in MBA. Those eligible for membership are limited to firms having home offices in northern New Jersey. A feature of the Constitution adopted by this Association is a section providing that only members of the Mortgage Bankers Association of America are eligible for membership. This same provision also applies to the Baltimore Mortgage Bankers Association just organized.

Mr. Thompson stated that the fundamental objectives of the local chapter will be "to further the progress made in the past in establishing confidence in mortgage investing in northern New Jersey, to secure uniformity of practices in the mortgage business, to acquire and disseminate accurate and reliable information regarding trends and values of real estate as they are related to mortgage loaning and, in general, to promote and extend the welfare of both mortgage borrowers and lenders, and perform a service which will command confidence and result in a general good to all those interested in mortgages."

HEADS NEW LOCAL MBA

John C. Thompson

He further stated that it is the desire of the local chapter to coordinate its activities with the Title Association of New Jersey, The Mortgage Conference of New Jersey, The New Jersey Association of Real Estate Boards, The Bar Associations, and New Jersey Bankers Association.

The local association's mortgage activities will embrace FHA loans as well as the conventional types of mortgages.

Plans are now being made by the local association to extend its membership throughout all of the northern counties of New Jersey.

CAMPBELL TALKS ON REAL ESTATE

Claude A. Campbell, president of the Midland Mortgage Company and a member of MBA's board of governors, recently spoke before the real estate class of the University of Toledo. This course is sponsored by the University and the Toledo Board of Realtors.

LOVE NEW HEAD OF ST. LOUIS MBA

S. Sproule Love, partner in the E. K. Love Realty Company, has been elected president of the Mortgage Bankers Association of St. Louis, succeeding Martin L. Rust. J. Gregory Driscoll, manager of the mortgage loan department of the General American Life Insurance Company, has been named vice president and George Stolz, real estate officer in the Boatmen's National Bank, has been re-elected treasurer. Joseph H. Schenk of Williams, McRee & Co., has been re-elected secretary.

M. T. MacCarthy, with the St. Louis FHA office, and W. I. Christopher, president of W. I. Christopher & Co., have been named to the advisory board. E. Paul Smith of the St. Louis Federal Savings and Loan Association and Victor Hallauer, of Shaw & Francis, have been elected to the board of governors.

The governors met on December 5th to select the slate and the regular meeting was held last night (December 14th) when the new officers were elected.

Lawrence E. Mahan, member of MBA's board of governors, announced the new slate. Harry Coopland, Hotel Roosevelt manager, was toastmaster. Vaudeville acts and a drawing for attendance prize followed the dinner.

Joseph Schenk reports that the St. Louis MBA has just organized a special group comprising representatives of life insurance companies. Several meetings have been held and some constructive work has been done, particularly in setting time limits during which minimum commissions to finance existing buildings are charged.

We suggest that every local association secretary write Joseph Schenk about it for further information.

The Federal Home Loan Bank Board says five times as much is expended for carpenters' wages in building a six-room frame house as for the next type of worker, plumbers.

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Is This a New Trend?

At the MBA executive committee meeting in Chicago a few days ago, several of the members were discussing the probable trend of interest rates and investments. It was suggested that mortgage rates, at least, seemed to be headed for somewhat higher ground. Cited was the recent MBA survey showing that nearly half of the members replying to our recent questionnaire expect higher rates while only around 6 percent think lower rates are ahead. (See article on the subject in this issue.)

One member said he thought that even lower rates might possibly develop and explained that there are some in high official positions today who may conceivably wish to see lower mortgage rates.

Into that discussion was injected a comment which we imagine would make a tremendous impression on the public if it were given wide publicity.

The story was told that when automobile trailers first became popular several years ago many large corporations began to speculate on their ultimate future. Everyone recalls that, at the time, many manufacturers, who had in the past been engaged primarily in making automobile parts and heavy machinery, immediately established trailer departments. Trailer manufacturing was destined to become an important part of the industrial machine, they felt sure.

One large American organization—one of the largest in the world—was among those who wondered about trailers. Its research experts were set to work. They studied the possibilities. They analyzed the public's taste as best they could. They sought to determine what the public would want in the *future*.

They came up with the conclusion that trailers may very well prove a passing fad.

This organization made no plans to enter the trailer field—and is happy today that it did not. The reason is plain.

Now this same organization, it is said, also set out recently to find out if people are going to continue to live in out-of-the-way housing developments, some of which the government has sponsored. Would people in large cities want to live permanently in these suburban developments just because today they seem attractive when compared to what is available in the cities.

The answer seems to be *no*.

At least that is what this organizaiton found.

They may seem attractive now. We may think it signifies a new trend in residential housing—and it *may*.

But one organization—one of the largest in the world—isn't banking on it.

And this organization, probably more so than any other in this country, has got to know!

One Year Old

This is the 24th issue of THE MORTGAGE BANKER. It is our first birthday. The next issue begins Volume II.

When we first began publication it was our original idea that THE MORTGAGE BANKER would serve as an open forum for the expression of the views of our members.

That is still our idea.

And if that suggests that you may have something to say on the mortgage business that you would like to say, let's hear about it.

We want *more articles* in 1940 from our own members. Your officers feel that in the Mortgage Bankers Association of America are represented the most successful and experienced mortgage men in the country.

Naturally who would be more qualified to write on mortgage affairs than they?

And let us repeat here that we're not looking for literary masterpieces. We aren't particularly concerned with the professional character of the work. What we want are articles that will *interest mortgage men*. We want primarily the thoughts, the ideas, the views.

So let this serve as an urgent appeal to every member to make a contribution to this publication. Only in that way can it be made of more value to the membership as a whole.

Highways or Homes?

If one scheme that is being kicked around and toyed with in Washington comes to realization, you can expect heavier taxation of homes and farms—not less. It has to do with spending 35 to 40 billion dollars in the next 20 years for vast superhighways. American Builder thinks it would increase property taxes greatly—as if they aren't enough now.

There would be 28,000 miles of these highways to connect the business districts of large cities. American Builder says:

"That's a lot of money—almost equal to the present record-breaking national debt.

"The country's people are paying much more taxes than ever before; but their national government, and most of their other governments, are still going deeper into debt.

"Where, then, does Mr. MacDonald (of the Bureau of Roads) propose to get the 40 billion, plus interest on it and the wherewithal to maintain such an expensive additional highway system? Not from highway users. He says motorists would not—in fact, could not—pay it in tolls or increase of present vehicle and gasoline taxes. He would get a large part of it, he says, by condemning real estate along the proposed superhighways, and, after they were built, selling the same real estate—perhaps to the former owners—at a profit to the government. The rest he would get by increased property taxes—mainly on real estate—and increased income taxes on individuals and business.

"Residential construction and other forms of building are increasing, but are still far below their pre-depression level. One of their principal obstacles is excessive taxation of real estate, especially farms and homes. Why should not practically all highway costs be paid by the people that use the highways? Why should so much of the present highway taxes, and a much larger part of proposed superhighway expenditures, be loaded on real estate—by the so-called 'excess condemnation' of real estate and in other ways."

REVIEW of the NEWS

HIGHLIGHTS FROM THE PRESS OF PARTICULAR INTEREST TO MORTGAGE BANKERS

FHA Mortgagees Gain

FHA now has 12,369 approved mortgagees of which 8,372 are national and state banks, 3,007 are savings and loan associations, 396 are insurance companies and 594 are mortgage companies and others. These are figures for the first nine months when 522 mortgagees were added.

Mr. McDonald recently declared that:

"In a few areas old-fashioned lending practices with second mortgages and high interest rates may still be somewhat in vogue, but generally these are giving way everywhere to the sound and enlightened principles of the FHA program. Most lenders now recognize the unsoundness of the old practices and are adopting the principles advocated by the FHA in the interest of their own safety."

Mr. Clarke in the leading article in this issue, says that FHA very largely dictates the going rate for mortgage loans. Mr. McDonald agrees, and says that:

"In my opinion, one of the outstanding achievements of the FHA has been the establishment of a uniform maximum interest rate for home financing throughout the entire nation."

The Average Mortgage

ABA is making a series of surveys over the country. One thing it apparently wants to prove is that banks want to loan money—and are. So far the results prove that very emphatically. In New York State 55 per cent of the 746 banks answered the questionnaire (about the same proportional response we get in MBA surveys).

These banks said that they made 4,884 mortgages in the first six months this year, totaling nearly $29,000,000. The average mortgage per bank was 12 and the average mortgage was for $5,896. Other states have been surveyed, the study shows that the average mortgage loan was as follows:

New Hampshire	$2,421
Maine	2,152
Vermont	1,602
Massachusetts	5,611
Rhode Island	6,472
Kansas	1,795

Savings Still Climb

Savings of the American people increased more than two billion dollars last year. The Federal Home Loan Bank Board reports that long-term savings reached an all time high in 1938, totaling 51 billion, 698 million dollars, an increase of 2 billion, 183 million dollars over 1937.

But gains from 1934 to 1938 are more than off-set by depression losses. Average savings account in national banks was $421 and $300 was the average cash value of life insurance policies. Cash value of average savings and loan account was $780.

The Tax Burden

How the heavy burden of real estate taxation can be partially lifted continues to be a favorite theme of the NAREB, and some pretty effective blows are being struck. The chairman of its real estate tax committee, Myers Y. Cooper, declared recently that:

"We are having a population increase annually of nine hundred thousand people. Housing calls for attack on a very wide front. It fell behind 200,000 units per year during the depression years. When building enterprise moves forward on an even keel, neither a depression nor a recession can exist for long. We start today with 14 million families living in houses of their own and 3½ million families possessing the farms on which they live. A nation of homeowners will do more to keep America going American than all other influences combined."

But, he warned, tax burdens have an inescapable effect on the economic system. Government, no more than a business organization, can perpetually capitalize debt service to its advantage. A businesslike look at the tax situation for real estate is needed if we are not to narrow the opportunity for home ownership and for work and wages in a wide group of industries.

Adjustment of the tax situation for real estate, he said, would not only remove a deterrent to housing and to other new building but would as well stabilize school and local government financing by putting important large costs, such as that for education, on a base wider than the outworn general property tax.

"The single-family dwelling has recovered from its depression losses. Real estate stood pat in the recession period just past, without a decline, and today is decidedly on the upgrade."

The Straus View

More and more discussion is taking place in the press and at conventions around the thought that the private building being done today is for the top third of our population. Nathan Straus of the USHA recently told M. S. Rukeyser of the Hearst papers that his agency seeks to build for the lower third of our population for whom private capital does not find it profitable to build. This is the "economic no man's land," to use his words.

Mr. Straus said that in the future the USHA will emphasize developments in small towns and is considering extending its activities to one-family houses in poor agricultural sections.

Such a development, in our opinion, hardly seems in keeping with the spirit of this law.

And further, Mr. Straus wants lower and lower financing costs. Here is his view:

"If it were feasible to cut the direct labor cost of a project by half it would reduce rent or carrying charges by less than 10 percent. Moreover, a 50 percent cut in the cost of materials would reduce the rent or carrying charge in a housing project by less than 15 percent. But if you could cut the financial charges for interest and amortization by 50 percent, you would reduce rent or carrying charges by at least 33 1-3 percent.

"Four out of five of the new buildings put up last year were built to rent or sell so that effective rent, including maintenance, would be over $40. On the other hand, four out of five families in the United States pay in effective rent less than $40 a month."

In other words, Mr. Straus would cut financing costs so low that there would not be the slightest incentive for private capital to participate in the field. The government would supply all the capital.

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